

# The State of Tennessee



## Deferred Compensation Program

## *Introduction to the* DEFERRED COMPENSATION PROGRAM



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# Introduction to the Deferred Compensation Program

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Retirement will probably be the biggest expense you'll ever face. Fortunately, as a state employee, you are already building retirement income through the Tennessee Consolidated Retirement System and Social Security.

*An employer pension and Social Security* are two of the three ingredients necessary for sound retirement financing. The third ingredient is *personal savings*.

To make it easier for you to save the third ingredient for retirement, the state offers the DEFERRED COMPENSATION PROGRAM. This program lets you set aside regular deposits through payroll reduction, beginning with as little as \$20 per month. And best of all, it allows you to set that money aside before federal income taxes are applied.



Dale Sims, State Treasurer

When you participate in this program, you “defer” or postpone receiving part of your salary until retirement. This allows you to postpone federal income taxes on the deferred amount — and on any earnings — until the money is paid to you or your beneficiary.

The program allows you to select from two approved plans: a 457 plan and a 401(k) plan. The major differences between the two plans are shown at the end of this booklet.

This program is available to you at any time while you are employed by the state. Although deferrals may be stopped or adjusted at any time, federal law says that you may not withdraw money from the program except under a few specific conditions such as retirement or termination of employment. You should read the Withdrawal Rules section of this booklet carefully before you begin deferrals.

The DEFERRED COMPENSATION PROGRAM offers a number of financial advantages. The program also provides a variety of investment options. This booklet is designed to help you evaluate when and how the program might be helpful to you. *Before you enroll, please read it carefully, along with the prospectus for any investment product you want to use. Please consider the investment objective, risks, fees, and expenses carefully before investing. For this and other important information you may obtain mutual fund prospectuses and fund profile sheets for the available investment options from the program's Internet site at [www.treasury.state.tn.us/dc](http://www.treasury.state.tn.us/dc) (using the "Great-West Retirement Services<sup>SM</sup>" link) or from your registered representative.*

## Who Should Participate

Generally, you should consider enrolling if you

- ◆ Are currently saving on an after-tax basis
- ◆ Pay significant income tax
- ◆ Are part of a two income family
- ◆ Are single with no dependents
- ◆ Want to provide for additional retirement income
- ◆ Have worked for several different employers over your career and won't be eligible for a vested TCRS benefit, or
- ◆ Plan to retire before you are eligible for Social Security benefits.

## Who Should Not Participate

You should not consider enrolling if you

- ◆ Do not have funds on hand for emergencies, or
- ◆ Cannot afford to invest part of your earnings on a long-term basis.

Great-West Retirement Services<sup>SM</sup> refers to products and services provided by Great-West Life & Annuity Insurance Company and its subsidiaries and affiliates.

# Deciding How Much To Save for Your Retirement

The DEFERRED COMPENSATION PROGRAM is designed to help you meet your long-term retirement savings goals.

No matter what your goal, the earlier you start, the easier it will be to reach.

By starting early, you take full advantage of the effects of

compounding earnings. Below is a

chart that illustrates how much money you may be able to accumulate for your retirement by beginning your contributions early and continuing to contribute throughout your career with the state.



## Saving a Regular Amount Each Month<sup>1</sup>

Monthly Deferrals	Growth Over			
	5 Years	10 Years	20 Years	30 Years
\$ 20	\$ 1,440	\$ 3,482	\$ 10,479	\$ 24,542
40	2,880	6,964	20,959	49,083
100	7,201	17,409	52,397	122,709
200	14,402	34,809	104,793	245,417
300	21,603	52,228	157,190	368,126
400	28,804	69,638	209,586	490,835
500	36,005	87,047	261,983	613,544

FOR ILLUSTRATION PURPOSES ONLY. Represents approximate accumulations from various levels of contributions earning a net effective annual yield of 7%. This rate is for illustrative purposes only and does not represent an actual or guaranteed rate of return.

<sup>1</sup> Represents hypothetical account balance(s) at year end for time periods shown. Does not represent the performance of any specific investment option. Does not reflect any charges or fees associated with your plan. The accumulations illustrated would be reduced if these fees had been deducted.

# The Advantages of Saving Before Tax

Unlike a personal savings account, the portion of salary you set aside in this program and the earnings on your deferrals are not taxed until you withdraw them. These immediate tax savings may allow you to accumulate savings at a faster rate than you could accumulate on your own.

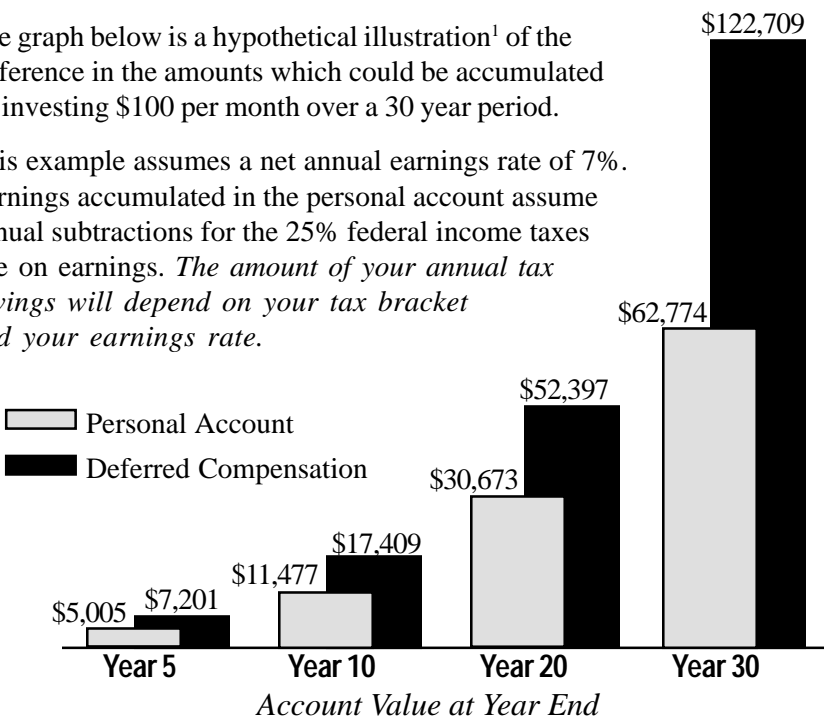
## Saving in a Personal Account vs. Saving in Deferred Compensation

*Saving \$100 per month each year*

	Personal Account	Deferred Compensation
Salary Set Aside	\$1,200	\$1,200
Less Federal Income Taxes (@ 25%)	- 300	- 0
<b>Net Amount Invested Annually</b>	<b>\$900</b>	<b>\$1,200</b>

The graph below is a hypothetical illustration<sup>1</sup> of the difference in the amounts which could be accumulated by investing \$100 per month over a 30 year period.

This example assumes a net annual earnings rate of 7%. Earnings accumulated in the personal account assume annual subtractions for the 25% federal income taxes due on earnings. *The amount of your annual tax savings will depend on your tax bracket and your earnings rate.*



# Participation Provisions

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## Enrolling in the Program

This voluntary, supplemental retirement savings program is available to any state employee paid through the state's central payroll system, the University of Tennessee (UT), or the Tennessee Board of Regents (TBR).



Participation in either plan is done through salary reduction. Before any deferrals begin, you will need to complete a 401(k) Participant Enrollment Form or a 457 Participant Enrollment Form. The forms ask you to specify how much you want to defer, who you want to name as your beneficiary, and the investment product option(s) you want to use. If you are employed by the state, submit your forms directly to Great-West Retirement Services<sup>SM</sup>. If you are employed by UT or the TBR, submit your forms to your campus resource office. Participant Enrollment Forms must be submitted at least one month before the payday in which they are to take effect.

Once you submit your Participant Enrollment Form, regular deductions will continue until you submit a change or cancellation or until you reach the maximum allowable deferral for the year. Participation may also have to be suspended if you file bankruptcy, apply for financial hardship, or are otherwise personally ineligible to use salary reduction programs. Be sure that you have other savings set aside for emergencies before you enroll.

Once you have enrolled and begun making deferrals, you may apply to roll over funds from a previous governmental employer's 457 plan into your 457 account, or from a previous employer's 401(k), governmental 457, 403(b), or IRA into your 401(k) account. For an Incoming Rollover Form, call KeyTalk®, the program's telephone voice response system, at **(800) 922-7772** and press "2" for a local representative.<sup>2</sup>

<sup>2</sup> Transfer requests received prior to 4 p.m. Eastern time on business days will be initiated at the close of that business day. The actual effective date of your transaction may vary depending on the investment option selected. Access to KeyTalk® and the Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance, or other reasons.

## **Minimum Deferral**

The minimum deferral to either plan is \$20 per month. If you are paid twice a month, the minimum deferral is \$10 per paycheck.

## **Employer Contributions to 401(k) plan**

The employer may match your minimum contribution of \$20 per month in the 401(k) plan. Availability of the match is subject to funds being appropriated each year. In general, employees who are actively contributing to the 401(k) plan and who are eligible to participate in the TCRS or the Optional Retirement Program will be eligible to receive matching contributions if funds are appropriated on their behalf. Contact your personnel officer or your campus resource officer for current information on employer contributions.

## **Changing or Canceling Deferrals**

If you want to make a change in the amount of your future deferrals, submit a Salary Reduction Agreement for the 401(k) plan or a Salary Deferral Agreement for the 457 plan. This needs to be done at least one month before the payday on which the change is to be effective. Although you may cancel your future deferrals at any time during the year, you may not withdraw previous deferrals from the plan until you meet one of the conditions for withdrawal.

## **Quarterly Statements**

Once you begin participating in either plan, you will receive a quarterly statement from Great-West Retirement Services<sup>SM</sup> showing activity in your account during the quarter. Statements are issued from the Great-West Retirement Services<sup>SM</sup> home office approximately three weeks after the end of the quarter. With each quarterly statement, you will receive a Quarterly Newsletter which will provide information about retirement planning and any changes in the plans, along with performance results for all investment options available in the program.



## Using the Web Site

The Web site at **[www.treasury.state.tn.us/dc](http://www.treasury.state.tn.us/dc)**<sup>2</sup> provides you with round-the-clock access to program and account information, valuable financial education, and useful financial calculators. Click on the “Great-West Retirement Services<sup>SM</sup>” link, sign in with your Social Security Number and Personal Identification Number (PIN), and you can make changes to your account, view investment option information such as fund profile sheets and online prospectuses, and use financial calculators to find out if you’re on track to meet your retirement savings goals. Great-West Retirement Services<sup>SM</sup> will mail you a PIN when you sign up for the program. Then, if you wish, you may personalize your PIN on the Web site or via the KeyTalk<sup>®</sup> telephone system (see below).

## Using the Voice Response System

The KeyTalk<sup>®</sup> telephone voice response system gives you immediate access to information about your account or access to your local representative. The number is **(800) 922-7772**. Press “1” to use the automated voice response system or to speak to a national service center representative or press “2” to speak to a local representative.<sup>2</sup> Once you’re in the voice response system, just enter your Social Security Number and your four-digit Personal Identification Number (PIN) to find out your account balance, your most recent account activity, your current contribution amount and investment direction, interest rates on the program’s fixed funds, or share values for the mutual funds. You may also make changes to your account such as reallocating your future contributions or making fund-to-fund transfers.<sup>2</sup>

## 401(k) Plan Loans

The 401(k) plan permits active employees who have accumulated \$4,000 or more in the plan to borrow up to half of their account balance. The minimum loan is \$2,000 for a general purpose loan or \$5,000 for a home loan. The maximum loan is \$50,000. Loans must be repaid through payroll deductions, normally in five years or less. Both the principal and the interest you repay go back into your 401(k) account. Call KeyTalk<sup>®</sup> or visit the program’s Web site for information on loan limitations and fees or for a copy of the loan brochure.

## Administrative Costs

The program's administrative costs are paid by participants. For employees enrolling in the 401(k) plan, the cost of administration is currently 0.22% of assets (22 basis points) annually or \$3 per quarter, whichever is greater. For employees enrolling in the 457 plan, the cost of administration is currently 0.22% of assets (22 basis points) annually. As detailed in the Investment Options section, several of the program's investment providers offer assistance with the basis point fee to participants who use their funds. Administrative costs for the program are subject to change in the future.

## Social Security Treatment of Deferrals

Participation in the DEFERRED COMPENSATION PROGRAM reduces salary for federal income tax purposes. It has no effect on the salary reported to Social Security or TCRS.

### 401(k) Maximum Deferral

The regular 401(k) deferral limit is \$13,000 in 2004, \$14,000 in 2005, and \$15,000 in 2006. If you will be age 50 or older during the year, your 401(k) contribution limit is \$16,000 in 2004, \$18,000 in 2005, and \$20,000 in 2006. The rule limiting 401(k) deferrals to 20% of your state salary is no longer effective. The state's matching contributions do not count toward your dollar ceiling.

### 457 Maximum Deferral

The regular 457 deferral limit is \$13,000 in 2004, \$14,000 in 2005, and \$15,000 in 2006. If you will be age 50 or older during the year, your 457 contribution limit is \$16,000 in 2004, \$18,000 in 2005, and \$20,000 in 2006. The rule limiting 457 deferrals to a percentage of your state salary is no longer effective.

457 plan participants may apply for a special "catch-up" arrangement when they are within three calendar years of normal retirement age. (Normal retirement age may be any age between 60 and 70.) This allows participants the option of making up some or all of any 457 deferrals missed during previous years of eligibility. Years of eligibility include years of central state government employment since January 1, 1980, years of UT employment since January 1, 1985, or years of TBR employment since January 1, 1996. The additional deferrals must be made within the

last three calendar years preceding the year of normal retirement age. While you are using the special catch-up provision, your total annual 457 deferral (regular & catch-up) may not exceed twice the regular contribution ceiling for that year.

Contact Great-West Retirement Services<sup>SM</sup> for a Catch-Up Application.

## **Additional Limits If You Use Both Plans**

If you use both the 401(k) and the 457 plan, you may defer the maximum to each plan. As of 2002, your deferrals to the 457 plan no longer reduce the amount you may defer to the 401(k) plan. For example, if you are under age 50 in 2004, you would be permitted to defer \$13,000 to the 457 plan plus \$13,000 to the 401(k) plan, for a total of \$26,000.

## **Excess Deferrals**

Be careful to plan your deferrals so that you do not exceed the legal maximum that applies to the plan(s) you have selected. The amount you defer to each plan is reported to the IRS on your 1099-R form each year. If your contributions exceed your legal maximum for any calendar year, you may be subject to federal tax penalties imposed by the Internal Revenue Code.

## **Additional Limits for UT and TBR Employees**

If you use a 403(b) plan and a 401(k) plan, your total contributions to both plans may not exceed the 401(k) dollar limit for the year, even if you have more than one employer. In other words, if you use a 401(k) plan and a 403(b) plan in 2004, your total deferrals to both plans may not exceed \$13,000 if you are under age 50, or \$16,000 if you are age 50 or older. Deferrals to a 403(b) plan directly reduce the amount you may defer to a 401(k) plan and vice versa. If you use both the 401(k) plan and the Optional Retirement Program (ORP), total employee deferrals and employer contributions to the two plans may not exceed \$41,000 in 2004.



# Basics of Investing

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## Choosing the Right Investment Mix is an Important Step toward Reaching Your Financial Goals

This program offers a number of different asset classes and investment options, or “funds,” within them to help you build an investment mix that is just right for you. Each asset class offers a different level of risk and return potential. Most investors believe that it’s wise to invest some amount in each of the asset classes, however, your investments outside this program should be considered as well. Following is a brief overview of the major asset classes, from most conservative to most aggressive.

### Cash Equivalents or “Fixed” Accounts and “Money Market” Funds

Though their long-term returns tend to be the lowest of the asset classes, cash equivalents can have a valuable place in most any investor’s investment mix, or “portfolio.”

**Fixed accounts** provide a fixed rate of return with minimum rate guarantees. Rates are declared quarterly, monthly, or semi-monthly, depending on the investment provider. Fixed accounts maintain principal and produce earnings through a stable level of interest. In each of the program’s fixed accounts, a single interest rate is applied to the entire fixed account balance. Their value typically is steady, so your principal is relatively safe from financial market fluctuations.

**Money market funds** seek to provide both current yield and price stability. They invest in short-term debt instruments. Because these instruments mature in less than a year, their market value does not fluctuate much. Yields of money market funds generally follow changes in short-term interest rates and fluctuate daily. *An investment in a Money Market Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.*

### Bonds or “Fixed Income” Funds

Governments and corporations issue bonds when they borrow money from investors. Individual bonds have a specified maturity and interest

payment. Bond funds combine many different bonds, and earned income is reinvested into your account. Bonds fall between cash equivalents and stocks in the potential for risk and return. They can help diversify and tone down a more aggressive stock-oriented portfolio, and they can help conservative portfolios stay ahead of inflation.

## Balanced Funds

Though not technically an asset class itself, the balanced category blends securities from the bond and stock asset classes, and provides the opportunity for both capital growth and dividend income. Balanced funds typically invest primarily in stocks and bonds of well-established companies.

## Stocks or “Equity” Funds

When you own a stock, you own a piece of a company. Stocks are considered the riskiest asset class. Yet, while past performance does not guarantee future results, stocks historically have had the highest returns over time. For long-term investors, stocks are often a significant component of their portfolios.

A fund made up of stocks typically focuses on a specific set of objectives, so stock funds may be classified by the size of the companies held or by the investment management styles of growth, value or blend.

**Growth** funds invest primarily in companies that seek capital growth and therefore have a higher degree of risk. Growth funds may purchase stock of companies that are new and have little or no performance history from which to judge their potential for success, but that have products or services that represent new technology or industry. Growth stocks typically do not pay dividends, preferring to put earnings back into the company.

**Value** funds look for stocks that are considered to be undervalued in price or “on sale,” but which may eventually see their worth recognized by the market. Value companies typically share their profits with their shareholders through dividends.

**Blend** funds invest in both growth stocks and value stocks.

*Investment return and principal value of a variable investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost.*

## **Index Funds**

Index funds can represent any of the asset classes and are designed to produce similar returns to those that investors would earn if they owned all the securities in a particular market index such as the Standard & Poor's 500 (S&P 500) Index. Index funds are often called “passively-managed” because the way money is invested is determined by the securities that are included in a particular index, not the research and discretion of a portfolio manager.

*An index is not professionally managed, does not have a defined investment objective, and does not incur fees or expenses. Therefore, performance of an index fund will generally be less than its benchmark index. You cannot invest directly in an index.*

## **Actively-Managed Funds**

In *actively managed* funds, the managers try to produce higher returns than the benchmark index. A professional portfolio manager, typically with one or more analysts, engages in regular in-depth research on the individual companies within a particular area of focus. This research utilizes sophisticated tools to study a company's complete profile including its financial and management structure, competitive position, product and/or service strengths and weaknesses and more. Importantly, the managers use personal expertise in conjunction with research findings to make the individual buy and sell decisions for actively managed funds. There is no guarantee that the portfolio manager will accomplish the goal of producing higher returns than the benchmark.

## **Diversify with Asset Allocation**

The way you distribute your investment dollars among and within the different asset classes is called asset allocation. It can help you reduce market risk. Keep these points in mind when choosing your asset allocation. Market conditions often shift very quickly, favoring different fund objectives at different times. Having different kinds of investment styles in your portfolio helps you be prepared for sudden changes in market conditions and may help level out your total account performance.

**Invest for your risk tolerance and savings goals.** If you have a low risk tolerance, you may want to invest more heavily in conservative and moderately conservative asset classes such as cash equivalents, bond or balanced investment options. If you are willing to take more risk, you may want to invest a higher percentage of your assets in stock investment options.

**Know your timeframe.** If you'll need to withdraw your savings within the next four to seven years, you may want to invest in more conservative investment options. But if you won't need your savings for many years, you may want to take more risk and invest in more aggressive investment options.

## Understanding Risk

When it comes to saving and investing, there's no way to avoid risk. There's the risk of losing money if the market goes down, which it will from time to time. There's the risk of playing it too safe and not beating inflation. There's the risk of not saving enough or not saving at all — and not having the money you'll need for your future. And there are other types of risk as well. Here are some ways you can reduce risk.

**Invest for the long term when possible.** Past performance can't be guaranteed, but historically the stock market has recovered from losses within about seven years. This means that if you invest wisely and leave your investments to grow, you're likely to get a higher return.

**Be aware of being too cautious.** If, over a long period of time, you invest all your contributions in a "safe" investment option that earns a 6% annual return, and inflation is 4%, inflation will erode much of the gains your investment earned.

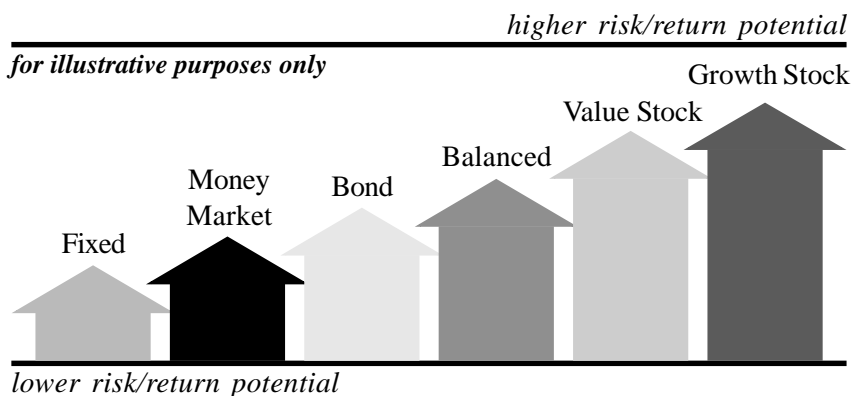
**Change your investments when you change your long-term goals or when your timeframe narrows.** Your financial situation changes at different stages of your life. Be sure to review your investment mix and your investment goals on a regular basis and make changes when necessary.

# Investment Options

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The program offers participants a diverse array of investment options (“funds”) with a broad range of investment objectives and risk characteristics. Participants may direct contributions to one or more of the program’s funds. After you begin participating in the program, you may change the way your future deferrals will be invested by accessing your account on the Internet site at **[www.treasury.state.tn.us/dc](http://www.treasury.state.tn.us/dc)** (using the “Great-West Retirement Services<sup>SM</sup>” link) or by calling KeyTalk<sup>®</sup> at **(800) 922-7772**. If using KeyTalk<sup>®</sup>, press “1” to use the automated voice response system or to speak to a national service center representative or press “2” to speak to a local representative.<sup>2</sup> Participants may also transfer money from one product to another, subject to specific product provisions, using either the Internet site or KeyTalk<sup>®</sup>.

## Potential Risk Versus Return Spectrum for Available Program Investment Options



All current funds are subject to state contract renewal. The Calvert and Fidelity funds offer additional brochures. Be sure that you understand the funds’ features fully before you invest.

*Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information you may obtain mutual fund prospectuses from your registered representative. Read them carefully before investing.*



## Fixed Accounts

*(investment options with fixed/guaranteed return)*



### Union Planters Bank Account

- ◆ Current interest rate is declared twice monthly based on the most recent 26 week U.S. Treasury bill discount rate, minus 0.25% (25 basis points).
- ◆ For the current rate, visit the Investment Performance section of the Internet site or call **(800) 922-7772**, and press “2” to speak with a local representative.<sup>2</sup>
- ◆ Existing balance earns same rate as new contributions.
- ◆ A participant’s total retirement plan and IRA assets in Union Planters are insured by the FDIC up to \$100,000 per person.
- ◆ No restrictions on transfers from this account.



### ING Fixed Account

- ◆ A fixed income option invested in the company’s general account which supports insurance and annuity obligations.
- ◆ Existing balance earns same rate as new contributions.
- ◆ Current rate is declared monthly.
- ◆ Restrictions apply to the amount a participant may transfer out of this account during any one calendar year.
  - ◆ You are eligible to transfer out 20% per year, or
  - ◆ Should you wish to transfer your entire account, you may do so over a five year period. You may elect to stop the five year scheduled transfer at any time. However, if you wish to re-start, the process will start from the beginning.
- ◆ ING will pay the 22 basis point administrative fee for assets invested in this account.
- ◆ Annuity distributions are available from this product.

## Variable Accounts

*(investment options with variable return)*

Before you select any one or more of these funds, you should carefully read the prospectus which explains the investment strategy and risks of the fund. Prospectuses and fund profiles are available on the Web site or from your registered representative.

All variable funds available for new deferrals are free from sales loads, surrender charges, or restrictions on transfers. The minimum investment requirements and sales loads usually applicable to some of these funds have been waived for the state's DEFERRED COMPENSATION PROGRAM.

There are several categories of variable funds — each designed to meet a different investment objective or goal.

*Values in variable options are not guaranteed as to a fixed dollar amount and will fluctuate in value according to the investment experience of the fund. Therefore, when redeemed, shares may be worth more or less than their original cost.*

### Money Market Funds

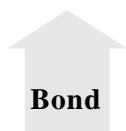


#### **Fidelity Retirement Government Money Market Portfolio**

- ◆ Seeks preservation of capital, liquidity and the highest possible current income through investments in U.S. government securities and repurchase agreements for those securities.
- ◆ Fidelity will pay the 22 basis point administrative fee for assets invested in this fund.

*An investment in a Money Market Fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.*

## Bond Funds



### **Calvert Income Institutional Fund**

- ◆ Seeks to maximize long-term income, to the extent consistent with prudent investment management and preservation of capital through investment in bonds and other income producing securities. The fund uses an active strategy, seeking relative value to earn incremental income.
- ◆ The fund typically invests at least 65% of its assets in investment grade debt securities. The remaining 35% of assets may be invested in non-investment grade securities.

## Balanced Funds



### **Fidelity Asset Manager (Blend)**

- ◆ Seeks high total return with reduced risk over the long term through investments in stocks, bonds, and short-term instruments of all types.
- ◆ Fidelity will pay the 22 basis point administrative fee for assets invested in this fund.



### **Fidelity Puritan Fund (Value)**

- ◆ Seeks income and capital growth consistent with reasonable risk. The fund is a conservatively managed growth and income mutual fund investing in a diversified portfolio of high yielding common stocks, preferred stocks and bonds.
- ◆ Fidelity will pay the 22 basis point administrative fee for assets invested in this fund.

## Stock Funds



### **State Street S&P 500 Flagship Fund (Index Blend)**

- ◆ Seeks to replicate the total return of the S&P 500 Index. The S&P 500 Index is a measure of the market value of 500 U.S. stocks chosen by Standard and Poor's Corporation to represent a broad range of industries within the U.S. economy.

## **State Street S&P 500 Flagship Fund (Index Blend)** **continued**

- ◆ An S&P 500 index commingled institutional fund managed by State Street Global Advisors (SSgA); holds all of the securities represented in the index, in the same proportion by capitalization as they appear in the index.



### **Fidelity Magellan Fund (Blend)**

- ◆ Seeks capital appreciation by investing in growth stocks and value stocks of domestic and foreign issuers.
- ◆ Fidelity will pay the 22 basis point administrative fee for assets invested in this fund.



### **Fidelity International Growth and Income Fund (Growth)**

- ◆ Seeks capital growth and current income. The fund normally invests in foreign securities and is typically diversified across several countries and regions. It may also invest in equity and debt securities of U.S. issuers.
- ◆ Fidelity will pay the 22 basis point administrative fee for assets invested in this fund.

*Foreign investments involve special risks, including currency fluctuations and political developments.*



### **Fidelity Contrafund (Growth)**

- ◆ Seeks capital appreciation by investing in securities of companies with valuable fixed assets. It also seeks securities it considers undervalued in relation to the issuer's assets, earnings, or growth potential.
- ◆ Fidelity will pay the 22 basis point administrative fee for assets invested in this fund.



### **Fidelity Over-the-Counter (OTC) Portfolio (Growth)**

- ◆ Seeks capital appreciation. The Fund normally invests at least 80% of assets in securities principally traded on NASDAQ or another over-the-counter (OTC) market which has more small and medium size companies than other markets.
- ◆ Fidelity will pay the 22 basis point administrative fee for assets invested in this fund.

# Withdrawal Rules

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## Permissible Withdrawals

Federal law permits withdrawal of deferred funds only when one of the following occurs:

- ◆ Termination of Employment with the state
- ◆ Retirement (Regular, Early or Disability)
- ◆ Financial Hardship or Unforeseeable Emergency (as defined by the plan)
- ◆ Age 59½ (401(k) plan only)
- ◆ Death

Under federal law, you must normally begin drawing benefits by the end of the year in which you reach age 70½ or retire, whichever is later. If you do not meet the required distribution provisions, federal law imposes a penalty tax equal to 50% of the amount you should have withdrawn that year but didn't. Withdrawals are subject to ordinary income tax. Withdrawals taken from the 401(k) plan prior to age 59½ may be subject to a 10% early distribution tax.

## Payout Options

When you are nearing retirement, you may want to set up an appointment with a Great-West Retirement Services<sup>SM</sup> representative for retirement counseling and benefit payment estimates. Assuming you have accumulated at least \$5,000, you may choose to have your account paid to you in a lump sum, in periodic payments, or in an annuity. (If your account balance is less than \$5,000, a lump sum payment is normally the only payout option available.)

A separate brochure titled “*Withdrawing Funds at Retirement*” explains the program’s withdrawal provisions in detail. Visit the program’s Internet site or contact Great-West Retirement Services<sup>SM</sup> for a copy of this booklet and the proper withdrawal application.

Under certain conditions, you may be eligible to have your deferred compensation funds rolled over into another tax-deferred plan. Refer to page 23 for information.



## **Financial Hardship Withdrawals**

It is very important for you to have funds available for emergencies before you join the program, since access to money in this program is strictly limited by regulations under the Internal Revenue Code. Many of the tax advantages of this program are sacrificed if you make a hardship withdrawal.

Generally, hardship withdrawals are permitted only if an event has occurred that creates a severe financial emergency for the participant which cannot be met by the cancellation of deferrals or by the liquidation of other assets. Distributions for this reason may never exceed the amount needed to cover the emergency.

A participant filing a financial hardship application is required to furnish complete financial data as well as documentation of the expense. Once a completed application is received, it will be reviewed by a state appointed committee before a determination of eligibility is made. Normally, deferrals will be canceled upon receipt of the hardship application.

### **457 Plan Hardship Definition**

The 457 plan allows hardship withdrawals only if the participant experiences a severe financial hardship resulting from:

- (1) sudden and unexpected illness or accident of the participant or a dependent,
- (2) loss of the participant's property due to uninsured casualty, or
- (3) other similar or extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant.

Examples of circumstances which do not qualify for 457 plan hardship withdrawal include purchase of a home or a car, educational expenses, payment of child support or alimony, bankruptcy or wage garnishment, past due credit card bills, or payment of taxes or tax penalties.

## **401(k) Plan Hardship Definition**

The 401(k) plan allows hardship withdrawals only if the participant experiences an immediate and heavy financial need caused by one or more of the following circumstances:

- (1) unreimbursed medical expenses incurred by the participant or a dependent of the participant,
- (2) purchase of the participant's primary residence,
- (3) payment of college tuition for the next year for the participant or a dependent of the participant,
- (4) funeral expenses for an immediate family member of the participant which exceed life insurance coverage, or
- (5) official notification of implementation of eviction or foreclosure proceedings regarding the participant's primary residence.

401(k) hardship withdrawals may not include employer contributions nor earnings accrued on your account after December 31, 1988. If you apply for financial hardship distributions from the 401(k) plan, federal regulations require that all deferrals be canceled for the remainder of the current year and for one full year thereafter.

If you qualify for a loan from the 401(k) plan, you are normally required to apply for a loan before applying for a hardship withdrawal from the 401(k) plan.

In addition to being subject to regular income tax, hardship distributions from the 401(k) plan may be subject to the 10% early distribution tax penalty. Distributions made due to hardship are not eligible for rollover.

# Comparison of the Plans Available

Provision	457 Plan	401(k) Plan
<b>Authorization</b>	Internal Revenue Code Section 457	Internal Revenue Code Section 401(k)
<b>Maximum Annual Deferral</b>	<p>Under age 50:  \$13,000 in 2004  \$14,000 in 2005  \$15,000 in 2006</p> <p>Age 50+:  \$16,000 in 2004  \$18,000 in 2005  \$20,000 in 2006</p>	<p>Under age 50:  \$13,000 in 2004  \$14,000 in 2005  \$15,000 in 2006</p> <p>Age 50+:  \$16,000 in 2004  \$18,000 in 2005  \$20,000 in 2006</p>
<b>Employer Contributions</b>	None.	State may match \$20 per month subject to annual appropriation.
<b>Catch-Up Deferrals Missed During Previous Years</b>	If not using age 50+ ceiling, catch-up is available during the last three calendar years before normal retirement age to a maximum annual contribution of twice the regular ceiling (e.g. \$26,000 in 2004).	None.
<b>Withdrawals Permitted</b>	Retirement, death, termination or approved unforeseeable emergency.	Retirement, death, termination, attainment of age 59½, or approved financial hardship caused by certain types of financial needs. Hardship withdrawals may not include earnings after December 31, 1988 or employer contributions.
<b>Tax on Lump Sum Distributions</b>	Taxable in year received.	Participants born on or before December 31, 1935 may be eligible for ten-year forward averaging; otherwise, taxable in year received.



<b>Provision</b>	<b>457 Plan</b>	<b>401(k) Plan</b>
<b>Benefits Must Begin No Later Than</b>	April 1st of the year following the later of age 70½ or retirement.	April 1st of the year following the later of age 70½ or retirement.
<b>Tax Penalties</b>	<p>No 10% penalty tax for distributions of 457 money made prior to 59½.</p> <p>50% excise tax applies if minimum required distributions are not taken.</p>	<p>10% federal penalty tax may apply to distributions made prior to age 59½.</p> <p>50% penalty tax applies if minimum required distributions are not taken.</p>
<b>Transfers/ Rollovers out of the plan</b>	Funds may be rolled over into another governmental 457 plan, a 401(a) plan, a 401(k) plan, or 403(b) plan that accepts rollovers, or IRA once you have met the eligibility requirements for withdrawal. Funds may also be transferred to TCRS for purchasing prior service.	Funds may be transferred or rolled over into another 401(k) plan, a governmental 457 plan, a 401(a) plan, or 403(b) plan that accepts rollovers, or to an IRA once you have met the eligibility requirements for withdrawal. Funds may also be transferred to TCRS for purchasing prior service.
<b>Loan Provisions</b>	None.	Active employees who have accumulated \$4,000 in the plan may borrow up to half of their account balance. Refer to Loan Brochure for details.
<b>Ownership of Assets Prior to Withdrawal</b>	Trust established for the benefit of the participants.	Trust established for the benefit of the participants.

**Note:** Statements regarding federal income tax requirements and plan rules are based upon the State of Tennessee's current understanding of the law and are subject to change as a result of subsequent amendments, regulations and interpretations. Participants are urged to consult their own tax advisers for advice concerning their particular circumstances.

The above is only a brief discussion of applicable tax requirements. Specific limitations and requirements are stated in detail in the plan Documents and the Internal Revenue Code and corresponding regulations.

# Administration

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Great-West Retirement Services<sup>SM</sup> serves as services provider of communication, education and administrative services for the DEFERRED COMPENSATION PROGRAM under the oversight of the State of Tennessee Treasury Department.

Great-West Retirement Services<sup>SM</sup> is responsible for providing participants with an objective presentation of the plans and the investment options available; processing enrollments, deferral changes, transfers between investment options, and withdrawals; maintaining individual deferral records; and issuing quarterly participant statements and quarterly bulletins.

Great-West Retirement Services<sup>SM</sup> does not hold or invest your deferrals. Your deferrals are sent immediately to the fund managers you have selected from those that the state has authorized to provide investment products for the program. These fund managers and their products are described in the Investment Options section of this booklet (see page 14-18).

For more information on the DEFERRED COMPENSATION PROGRAM, visit the Treasury Department's Internet site at **[www.treasury.state.tn.us/dc](http://www.treasury.state.tn.us/dc)** or call KeyTalk® at **(800) 922-7772**.<sup>2</sup>



# Your Future Begins Today



**The services and communications provider for the program is:**

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Greenwood Village, CO 80111  
(800) 922-7772, press "1"

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Great-West Retirement Services<sup>SM</sup> refers to products and services provided by Great-West Life & Annuity Insurance Company and its subsidiaries and affiliates.

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